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May 6, 2004

Mr. Lawrence R. Krevor
Vice President - Government Affairs
Nextel Communications, Inc.
2001 Edmund Halley Drive
Reston, VA 20191

Dear Mr. Krevor:

American Appraisal Associates, Inc. ("American Appraisal") was retained by Nextel Communications, Inc. ("Nextel" or the "Client") to provide a review of three reports prepared by Kane Reece Associates, Inc. ("Kane Reece") on behalf of Verizon Wireless, and submitted by Verizon Wireless to the Federal Communications Commission ("FCC") for consideration in its rule making proceeding in FCC WT Docket No. 02-55, "Improving Public Safety Communications in the 800 MHz Band."

The main Kane Reece report is titled, "Determination of the Fair Market Value of the Certain Portions of FCC Licensed Wireless Spectrum Proposed for Realignment by Nextel Communications, Inc. under FCC WT Docket No. 02-55 as of December 31, 2002" ("Kane Reece report") and is dated October 23, 2003. Kane Reece provided two follow-up reports dated February 9, 2004 and April 8, 2004 (collectively, the "Kane Reece reports").

American Appraisal has reviewed the Kane Reece reports and prepared this analysis for Nextel to submit to the FCC. The scope of the work performed included a review of the Kane Reece reports, a review of analyst reports relating to the wireless industry, and other information that was available from a variety of sources. At times in this report, we may use assumptions found in the Kane Reece reports; however, unless specifically noted otherwise, American Appraisal provides no assurance of the reasonableness of Kane Reece's assumptions.

American Appraisal has reviewed the spectrum valuation conclusions reached by Kane Reece using a valuation date of December 31, 2002, the date used by Kane Reece, to provide an "apples-to-apples" evaluation. As discussed herein, however, spectrum valuations fluctuate over time and can be very sensitive to relatively small changes in the cost of capital and other assumptions used in the valuation. Accordingly, valuation assumptions relative to December 31, 2002 may not accurately reflect current spectrum market values.

Our review and analysis of the Kane Reece reports indicate that Kane Reece has made a number of inaccurate financial assumptions and errors in methodology that render unreliable its valuation of the 1.9 GHz replacement spectrum at issue in the FCC proceeding. These and similar errors undercut the accuracy and reliability of Kane Reece's valuation of Nextel's 700 MHz, 800 MHz and 900 MHz spectrum holdings. American Appraisal concludes, therefore, that Kane Reece's valuation conclusions should not be relied upon.

American Appraisal was founded in 1896. American Appraisal is the world's largest independent valuation consulting firm. We have more than 50 offices on four continents with a staff of over 800 employees. American Appraisal follows the Uniform Standards of Professional Appraisal Practice ("USPAP") as promulgated by the Appraisal Standards Board. As provided for by USPAP, American Appraisal has reviewed the Kane Reece reports and submits this review report. Under USPAP, this report does not constitute any appraisal, and it does not provide an independent opinion of value.

Background

The FCC is considering proposals for reducing interference to public safety operations in the 800 MHz band. It is our understanding that the public safety community, private wireless licensees and Nextel have submitted a proposal (the "Consensus Plan") to the FCC in response to the FCC's request for comments in this matter. In response to the Consensus Plan, Verizon Wireless ("Verizon") has submitted comments to the FCC alleging that adoption of the Consensus Plan would result in an unlawful windfall to Nextel.

In support of its comments, Verizon retained an appraisal firm, Kane Reece to appraise the fair market value of Nextel's current spectrum holdings as well as the value of spectrum that Nextel would acquire under the Consensus Plan proposal. You have requested American Appraisal to review the Kane Reece report, and to comment on the appraisal methodology and key assumptions employed by Kane Reece in its determination of fair market values for these assets.

Description of the Kane Reece Report

Kane Reece's main appraisal report is titled, "Determination of the Fair Market Value of the Certain Portions of FCC Licensed Wireless Spectrum Proposed for Realignment by Nextel Communications, Inc. under FCC WT Docket No. 02-55 as of December 31, 2002". This report is dated October 23, 2003.

Kane Reece uses an income approach to value the 10 MHz of 1.9 GHz spectrum that Nextel would receive as replacement spectrum under the Consensus Plan on "an 'incremental start-up' basis." Kane Reece values the companies in the wireless industry using income and market approaches. They then remove the value of tangible assets (net book value), working capital, and customer relationships in order to determine the value of the FCC Licenses per MHz Pop. Kane Reece then computes their estimation on the impairment of the spectrum that Nextel would relinquish under the Consensus plan. Using this information, Kane Reece computes the value that Nextel would give up under the Consensus Plan. Kane Reece values the spectrum that Nextel would gain by using the same calculations without impairment. The two follow-up reports were primarily issued to answer criticisms of the original Kane Reece report.

Income Approach to Value 10 MHz of 1.9 GHz Spectrum

On page 16 of the Kane Reece report, an income approach to valuing 10 MHz of 1.9 GHz spectrum is offered. Kane Reece developed a 10 year business model "on an incremental 'start-up' basis." The cash flows appear to consider capital expenditures, working capital requirements, the requirement to obtain subscribers and other costs consistent with "an incremental start-up model, whereby we assumed that the likely acquirer of this spectrum would be an existing wireless industry member and would use it in a 'highest and best use value' mode, providing additional traffic capacity for its existing wireless network, national in scope."

In an income approach to valuation, the discount rate represents the rate at which an investor would require returns in order to be compensated for the risk that the investor is taking. For projects with greater risk, investors require a greater return. If an asset is valued using a discount rate that does not represent the risk reflected in the cash flows, the results of such a valuation will not be reliable as representing the fair market value of the asset. The lower the discount rate, the higher the value. Kane Reece uses an 11% discount rate. They computed the cost of equity using the Capital Asset Pricing Model. The cost of debt was determined using an average of prime and high yield debt and a tax shield of 40%.

A terminal value was computed using a terminal multiple derived from the discount rate of 11% and a terminal growth rate of 4%. The terminal growth rate represents the rate that the cash flows will continue to increase beyond the projection period. The greater the terminal growth rate, the higher the value.

With these inputs, Kane Reece determines the value of the 10 MHz of 1.9 GHz spectrum at approximately $5 billion.

There are several errors in Kane Reece's methodology which lead to a significant overvaluation of this spectrum. Kane Reece uses a discount rate of 11%. We have reviewed analyst reports from Bear Stearns (issued November 2002), Morgan Stanley (issued December 2, 2002) and Salomon Smith Barney (issued December 2, 2002) and find that analysts at major Wall Street houses typically value wireless companies using higher discount rates.

	Reported Discount Rates		
Company	**Bear Sterns**	**Morgan Stanley**	**Salomon Smith Barney**
AT&T Wireless	13.0%	11.0%	11.0%
Nextel Communications	15.0%	13.0%	13.0%
Sprint PCS	13.0%	12.5%	13.0%

JP Morgan does compute lower discount rates in its report, *Mobile Metrics – Spring 2003*: 10.14% for AT&T Wireless, 10.05% for Nextel Communications, and 7.22% for Sprint PCS. These discount rates seem low considering the industry and discount rates used by other investment banks and we are inclined to treat these discount rates as outliers. Moreover, in *JP Morgan Wireless Services Weekly Metrics* reports dated October 7, 2003 and April 21, 2004, JP

Morgan suggests using a discount rate for the wireless industry of 12%. Even if we were to exclude the discount rates from *JP Morgan Wireless Services Weekly Metrics*, dated October 7, 2003 and April 21, 2004 and include the discount rates from *Mobile Metrics – Spring 2003*, the median discount rates for AT&T Wireless, Nextel Communications, and Sprint PCS would be 11.00%. 13.00% and 12.75%.

Excluding JP Morgan, the mean discount rate for all of the operations of a large wireless company is 12.7%. The median of the discount rates is 13%. Based on this evidence, it is not reasonable to assume that the discount rate for a "likely acquirer of this spectrum" to be 11%. It could be argued that 13% should be the discount rate that should be used for all of the operations of a large "likely acquirer of this spectrum". The discount rate would very likely increase if the acquirer were a smaller company.

Another error that is made is that Kane Reece uses the discount rate for all of the operations of a "likely acquirer of this spectrum". Per Ibbotson Associates, "The cost of capital is a function of the investment, not the investor."[1] Brealey and Myers states, "The true cost of capital depends on the use to which the capital is put."[2] Shannon Pratt states, "it would be an error to evaluate a potential investment on the basis of a company's overall cost of capital if that investment were more or less risky than the company's existing business" and "the 'hurdle rate' for any given prospective investment may be at, above, or below the company's overall cost of capital depending on the degree of risk of the prospective investment compared to the company's overall risk."[3] Shannon Pratt states further, "If the risk of the project is greater or less than the company's overall risk, then the cost of capital by which that project is evaluated should be commensurately higher or lower than the company's overall cost of capital".[4]

At this point we must consider that an investor would see more risk and require a higher return in "an incremental 'start-up'" operation than in the continuing operations of a large wireless company. The cash flows provided by Kane Reece for this "start-up" operation are shown in Exhibit B of the Kane Reece report and require a cash infusion over the first five years of nearly $2.4 billion. Clearly the 13% discount rate determined earlier for all of the operations of large wireless companies would need to be increased for the additional risk of this "incremental start-up". Risks that would be borne as a result of this "incremental start-up" could include financing risk, risks as to the actual need for the additional bandwidth to service its customers, the risk of obtaining subscribers, risks of future growth (due to additional wireless penetration, pricing,

[1] Ibbotson Associates, Cost of Capital Workshop, Chapter 1, p. 7.
[2] Richard Brealey and Stewart Meyers, *Principles of Corporate Finance*, 5th ed. (New York: McGraw Hill, 1996), p. 205.
[3] Shannon P. Pratt, *Cost of Capital Estimations and Applications*, (New York: John Wiley & Sons, Inc., 1998), p. 5.
[4] Shannon P. Pratt, *Cost of Capital Estimations and Applications*, (New York: John Wiley & Sons, Inc., 1998), p.13.

minutes of use, etc.), technology risks which could occur over the next six years, the risks and costs of clearing BAS and unlicensed PCS operations (the costs of which do not appear to be in Kane Reece's valuation model), and a multitude of risks that can only be guessed at. When considering the risk of this "incremental start-up", we must remember that this business will not generate positive cash flows until year 6. Certainly, the risk of this "incremental start-up" is greater than the risk of the continuing operations of a large wireless company. If one adds a nominal 2% to the 13% discount rate discussed earlier, we obtain a discount rate of 15%. Kane Reece uses a discount rate of 11%.

Another error found in the valuation of the 10 MHz of 1.9 GHz Spectrum is in the choice of a terminal growth rate. Kane Reece used a terminal growth rate of 4%. Kane Reece justified this by stating that the growth rate in the terminal year of the cash flows was 6.3% and provided mathematical justification for using 4.0% by estimating that there would be five more years of a 6.3% growth rate followed by a 3% growth rate to perpetuity. Using the formula on page 20 of the Kane Reece report, g_1 should be the first year after the projection period (year 2013), not the last year of the projection period (year 2012). In the last three years of the projection in Exhibit B, revenue growth drops from 18.4% (year 2010), to 10.4% (year 2011), to 4.9% (year 2012). This rapid decline in the revenue growth certainly seems to be approaching a terminal growth rate of 3%, which may be a proxy for long-term inflation (although considering current inflation rates as well as the deflation in wireless pricing, 2% for long term inflation could be considered more appropriate). We fail to see how Kane Reece can correctly forecast five additional years of growth at a rate of 6.3%. Typically, a terminal growth rate reflects revenue growth and not improvements in operating margins. If we were to use all of Kane Reece's assumptions and more correctly use a terminal growth rate of 3% instead of the 4% that Kane Reece used, the valuation of the 10 MHz of 1.9 GHz Spectrum would decrease by $0.6 billion.

The values obtained from Kane Reece's model are very sensitive to changes in the discount rate or terminal growth rate. If we revalue the cash flows in Exhibit B using a 15% discount rate and a 3% terminal growth rate, we obtain a value of $1.8 billion. If all of Kane Reece's assumptions remained the same with the exception of using a 12% discount rate, the value computed from Kane Reece's model would decrease by $1 billion. These values have been computed using Kane Reece's complete forecast which American Appraisal has not tested for reasonableness. The following table shows the extreme sensitivity to discount rates and terminal growth rates of Kane Reece's valuation of the 10 MHz of 1.9 GHz spectrum.

Computed Value of the 10MHz of 1.9GHz Spectrum			
	Terminal Growth Rate		
Discount Rate	2.0%	3.0%	4.0%
11.0%	$3.9 billion	$4.4 billion	$5.0 billion
12.0%	$3.1 billion	$3.5 billion	$4.0 billion
13.0%	$2.5 billion	$2.8 billion	$3.2 billion
14.0%	$2.0 billion	$2.3 billion	$2.5 billion
15.0%	$1.6 billion	$1.8 billion	$2.0 billion
16.0%	$1.3 billion	$1.4 billion	$1.6 billion
17.0%	$1.0 billion	$1.1 billion	$1.3 billion
18.0%	$0.8 billion	$0.9 billion	$1.0 billion
19.0%	$0.6 billion	$0.6 billion	$0.7 billion
20.0%	$0.4 billion	$0.5 billion	$0.5 billion

Given the above errors and the extreme sensitivity to changes in assumptions, the value computed by Kane Reece for the 10MHz of 1.9GHz spectrum is unreliable.

<u>Valuation of the Wireless Industry Business Enterprise Value – The Income Approach</u>

Part III of the Kane Reece report begins on page 15 with the premise of determining the fair market value of this spectrum to an interested, unbiased, willing purchaser by "determining the Business Enterprise Value of substantially all of the industry's domestic wireless carriers." On page 21, Kane Reece begins an income approach valuation of Verizon Wireless, Cingular, T-Mobile, and Nextel Communications. In order to value companies in the wireless industry, Kane Reece used a "'consensus' or average of several current investment bank analysts' reports." Kane Reece does not explain why they used the *valuation forecasts* from the "bank analysts reports", but they did not use the *discount rates* from the bank analysts reports. As shown earlier, analyst reports typically show discount rates for the large wireless companies of approximately 13% as opposed to the 11% used by Kane Reece (Kane Reece valued Nextel using a discount rate of 10.7%). As explained earlier, if Kane Reece had used higher discount rates, as used in the bank analyst reports, their computed business enterprise values would be lower.

In the discounted cash flows for Verizon, Cingular, and T Mobile, virtually no taxes are removed from the cash flows during the projection period of 2003 through 2010. This is inconsistent with Kane Reece's discount rate development. If we assume that these companies are not paying tax due to depreciation, amortization, write-off's, etc., it is incorrect to include the tax shielding of the debt component in Kane Reece's discount rate determination. This factor alone would increase the discount rate by 1.65% (2% rounded) for the projection period. As stated earlier (and as demonstrated by the discount rates used by analysts), American Appraisal feels that Kane Reece used a discount rate that does not represent the risk in this industry.

The terminal growth rates used for Verizon Wireless, Cingular, T-Mobile, and Nextel Communications shown in Exhibit C of the Kane Reece report are higher than the revenue growth rates in the final year (2010) of the projections. It would be more appropriate to use a lower terminal growth rate. This would have a material effect on the computed values. Lowering the terminal growth rates would decrease the business enterprise values computed by Kane Reece.

Company	**Year 2010 Projected Growth Rate**	**Kane Reece Terminal Growth Rate**
Verizon Wireless	2.54%	4.00%
Cingular	2.15%	4.00%
T-Mobile	2.86%	4.00%
Nextel Communications	1.75%	4.00%

With the abovementioned errors, American Appraisal has no confidence in the income approach valuation results provided by Kane Reece.

<u>Valuation of the Wireless Industry Business Enterprise Value – The Market Approach</u>

Part IV of the Kane Reece report begins on page 23. The analysis is found in Exhibit D and contains a Control Premium of 30%. In their report dated February 10, 2004, Kane Reece attempts to defend their use of a control premium by saying that the control premium "represents a premium to acquire the controlling interest in the company." The problem with including a control premium is that the majority of a control premium in a transaction is related to synergies relating to the transaction. Kane Reece is attempting to determine the value of the wireless companies as they exist; thus there are no transactional synergies. Shannon Pratt states (emphasis added), "Most analysts concur that with the possible exception of industries under consolidation where there are multiple buyers that constitute an effective and relatively predictable market, acquisition premiums observed for public companies generally tend to overstate the pure control premium that could be included in the fair market value of a controlling interest compared with a minority interest. **Instead, such premiums usually reflect value to a particular buyer, and therefore reflect elements of investment value over and above fair market value.**"[5]

It would be incorrect to assume synergies or an increased value to a particular buyer due to cost savings or synergies (which would result in investment value not fair market value). As found in Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Acquiring entities usually integrate acquired entities into their operations, and thus the acquirer's expectations of benefits resulting from the resulting synergies usually are reflected in the premium that they pay to acquire those assets."[6] Attempting to assume synergies, without a given transaction or known buyer, is highly speculative at best and does not examine the current use of the intangible asset by the companies in this industry or the fair market value of these assets absent the assumed synergy value.

Kane Reece has argued that it is inconsistent to use an income approach (control) and a market approach (minority), but this is an empty argument. As stated by Pratt, Reilly and Schweihs, "The big difference between control and minority ownership in the income approach generally is found in the economic income projections. To the extent that the economic income projections reflect the ability of a controlling shareholder to realize more for the controlling interest than a minority holder could realize under the status quo, the income approach reflects the impact of control, and the resulting value would represent the value of those elements of control. If a controlling stockholder could enhance value to controlling shares, but the impact of such potential actions is not reflected in the economic income projections, then the indication of value tends to be on a minority basis."[7] Kane Reece's income approach used analyst reports that did not include synergies. Therefore, the income approach provides an indication of value on a minority basis. It would be inconsistent to determine a market approach on a majority basis.

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[5] Shannon P. Pratt *Business Valuation Discounts and Premiums*, (New York: John Wiley & Sons, Inc., 2001), p. 60.
[6] Financial Accounting Standards Board, *Statement of Financial Accounting Standards No. 142*, June 2001, p. 5.
[7] Shannon P. Pratt, Robert F. Reilly and Robert P. Schweihs *Valuing a Business*, (Chicago: Irwin Professional Publishing, 1996), p. 304.

Kane Reece makes an additional mistake by adding the book value of debt and preferred stock to equity value of each company. On December 31, 2002, the fair market value of the debt for wireless companies was somewhat less than the book value of the debt which further inflates the Total Capitalization / Market Value of Invested Capital found in Exhibit D of the Kane Reece report.

The net tangible assets, net working capital and subscriber values (computed on a cost basis) are subtracted from the Total Capitalization to give the value of the FCC License. Kane Reece ignores all other intangible assets. By valuing the FCC licenses on a residual basis, Kane Reece compounds the error of including a control premium, and puts all of the value that Kane Reece has incorrectly created through their control premium, onto the FCC Licenses. This error alone incorrectly places greater than $10 billion of value directly onto the FCC Licenses of the wireless industry.

Kane Reece has relied fairly heavily upon a report prepared by JP Morgan, *Mobile Metrics – Spring 2003* for data. Kane Reece, on page 32 of their report, writes, "We then structured our analysis of the industry in a manner similar to that presented by JP Morgan in its Wireless Market research report, *Mobile Metrics – Spring 2003*." On page 8 (Table 3) of *Mobile Metrics – Spring 2003*[8], JP Morgan provides a computation of "Implied Public Market Trading Values of Cellular and PCS Operators", in which JP Morgan computes a value of "Implied License Value / MHZ / Pop". When we compare this to Schedule E of the Kane Reece report, we notice that the largest differences are that JP Morgan removes gross property plant and equipment ("PP&E") (Kane Reece removes net PP&E), JP Morgan does not remove the value of the customers, and **JP Morgan does not include a control premium whereas Kane Reece inappropriately uses a control premium**.

It is interesting to notice that in the JP Morgan report, Nextel's Implied License Value / MHZ / Pop is the third highest in the industry. This certainly suggests that Nextel's License Value is above industry norms. Kane Reece neglected to include this calculation.

With the errors in this approach (in particular, the compound errors of taking acquisition premiums and placing the total acquisition premium for a company on the company's FCC Licenses), we feel that no reliance can be placed on the values determined by Kane Reece with their residual approach to valuing the FCC Licenses.

[8] JP Morgan Chase Securities, Inc. *Mobile Metrics – Spring 2003*, March 12, 2003, p. 8.

Spectrum Comparable Sales

In Exhibit F of their report, Kane Reece offers a variety of "Market Transactions" which they use to test the reasonableness of their conclusions concerning the value of the 1.9 GHz replacement spectrum and Nextel spectrum. Kane Reece admits on page 37 of their report, "The application of a classic market approach to wireless telephone business spectrum would be difficult due to the lack of comparative data and the subjectivity of any comparative value adjustments." Exhibit F shows 14 transactions and two proposed transactions. According to these transactions, "the weighted average price per MHz-Pop is $1.51 and the median price per MHz-Pop is $1.21." The transactions show prices per MHz-Pop which ranges from $0.06 to $4.73. Merely taking an average or even a median of such a range shows very little. We agree with Kane Reece's decision not to rely upon this data. We find nothing in Exhibit F which would provide any support for the valuation of the spectrum under consideration under the Consensus Plan.

It could be argued that Kane Reece should have included Nextel's actual costs of acquiring this spectrum. A possible argument for not including such data is that it is dated, as Nextel has acquired the spectrum to be surrendered beginning in the late 1980s through 2003.

In their February 10, 2004 letter, Kane Reece dismisses Nextel's recent spectrum purchases from Chadmoore Communications (February 2002) and Neoworld Communications (January 2003) which were used to value Nextel's 800 MHz and 900 MHz spectrum in a report prepared by the Sun Fire Group[9]. These transactions show price per MHz-Pop values of $2.02 and $1.44 (according to the Sun Fire Group), both significantly higher than Kane Reece's valuation of the spectrum to be surrendered by Nextel. While Kane Reece protests that "Chadmoore is dependent upon Nextel for financing current operations", this would put Nextel in a better negotiating position and would tend to decrease the price paid. Kane Reece has a similar criticism of the Neoworld transaction in which they state, "Neoworld was headed by Brian McAuley, a co-founder of Nextel with Morgan O'Brien another co-founder of Nextel and then current Nextel Vice Chairman." Kane Reece suggests that, "the transaction is somewhat incestuous". It is important to consider that, prior to these transactions, Nextel had no stock ownership in Chadmoore or Neoworld. Unless Kane Reece could show that Nextel defrauded its own investors by deliberately overpaying for the business of a largely unrelated company that it did not control, we must conclude that Chadmoore and Neoworld represent market-based uncontrolled transactions between two parties; one trying to receive as much as possible and

[9] Sun Fire Group LLC *The Consensus Plan: Promoting the Public Interest A Valuation Study*, November 20, 2003, pp. 27-29.

another trying to pay as little as possible. We disagree with Kane Reece's decision to exclude these transactions.

With the wide variance in Kane Reece's "Market Transactions" found in Exhibit F as well as the abovementioned excluded transactions, we agree that the results of this approach do not meet the standard for reaching any conclusions upon the value of the spectrum at issue in the FCC's proceeding in WT Docket No. 02-55. We feel that the variance in transaction values shown in Kane Reece's Exhibit F and the elimination of certain transactions make this approach insufficient for even determining the reasonableness of Kane Reece's other approaches.

Is Nextel's Spectrum Impaired?

In their report, Kane Reece discusses the advantages of different bands of spectrum with different technologies and attempts to determine values based upon their estimations as to the relative benefits of each spectrum band. This discussion, however, misses the point of the valuation of an intangible asset such as an FCC License. The value of an intangible asset lies in its ability to contribute to earnings and value creation for its owner.

According to Kane Reece's report, Nextel's bandwidth creates significant value for Nextel (Kane Reece report, Exhibit E). By computing the total value of Nextel, and subtracting working capital, international and non-related assets, net PP&E, and customer relationships, Kane Reece determines their value for Nextel's FCC Licenses. Kane Reece states in their report that, "Based upon our experience in appraising the intangible assets of wireless companies, we determined that there are two intangible assets of material value: customer relationships and FCC License rights."

In Exhibit E of their report, Kane Reece computes the value of Nextel's licenses as of December 31, 2002 at $12.973 billion. In the same exhibit, Kane Reece shows that Nextel has 6.106 billion /MHz/Pop which implies a value of $2.125/MHz/Pop. According to the Kane Reece report, the industry's average license value per MHz Pop is $1.82/MHz/Pop. Using data from the Kane Reece report, Nextel's total bandwidth is worth considerably more than the industry average. We do not find it reasonable that Nextel's bandwidth is impaired when Nextel's bandwidth is worth considerably more than the industry average.

In Kane Reece's letter dated April 8, 2004, Kane Reese criticizes a report prepared by Dr. Gregory L. Rosston (the "Rosston Report"). Kane Reese goes on to say on page 4, "We do not dispute that Nextel's company specific spectrum value is above the industry weighted average but this is an investor value, not fair market value." We can only assume that Kane Reece is speaking of "investment value" as opposed to "investor value". Investment Value is a term which comes from real estate valuations and is defined as "value to a particular investor based on individual investment requirements, as distinguished from the concept of market value, which is impersonal and detached."[10] Pratt, Reilly and Schweihs add the following: Investment Values may differ from fair market value for a number of reasons. Among these reasons are:

1. Differences in estimates of future earning power
2. Differences in perception of the degree of risk
3. Differences in tax status
4. Synergies with other operations owned or controlled[11]

Kane Reece neglects to specify which of these (or other) reasons make the value of Nextel's FCC licenses "Investment Value" as opposed to "Fair Market Value". Since we are dealing with similar companies in the same industry, presumably with similar estimates of future earning power, with similar perceptions of risk, similar tax considerations and no discernable synergy differences, we fail to see why $2.125/MHz/Pop (the value of Nextel's bandwidth using data from the Kane Reece report) represents Investment Value as opposed to Fair Market Value.

[10] *The Dictionary of Real Estate Appraisal*, 3d Edition (Chicago: Appraisal Institute, 1993). p. 190.
[11] Shannon P. Pratt, Robert F. Reilly and Robert P. Schweihs *Valuing a Business*, (Chicago: Irwin Professional Publishing, 1996), p. 25.

If we return again to Kane Reece's letter dated April 8, 2004, Kane Reese states on page 4, "We do not dispute that Nextel's company specific spectrum value is above the industry weighted average but this is an investor value, not fair market value." Kane Reese continues as follows, "FMV is the standard of value that the Kane Reese report adheres to." When we return to the Kane Reece report dated October 23, 2003, and we examine Exhibit D, we find that Kane Reese determines a spectrum value per MHz Pop of $1.61 for the wireless industry using the very same approach that they claim gives investment values for Nextel. Further, Kane Reece aggregates their computed FCC license value, but the computed License Value is the aggregate of the residual FCC License value of the companies in the industry. If this residual approach gives investment value when examining Nextel alone, it also gives investment value when examining the entire industry.

In Table 7 (page 42) of Kane Reece's report, Kane Reece gives their opinion of the value of Nextel's spectrum in the 700, 800, and 900 MHz bandwidths. Kane Reece suggests that these bandwidths are worth $0.027/MHz/Pop, $0.450/MHz/Pop, and $0.300/MHz/Pop. If you accept Kane Reece's opinion of value for Nextel's bandwidth that they would contribute under the Consensus Plan, you must find that the remaining 9.7 MHz of Nextel bandwidth (of Nextel's total 26 MHz) is worth $5.16/MHz/Pop. This is highly suspect since according to Kane Reece's calculations, the average license value per MHz Pop is $1.82. This disparity further demonstrates the inaccuracy of Kane Reece's valuation conclusions for Nextel's 700 MHz, 800 MHz, and 900 MHz spectrum contributions to implementing and completing the Consensus Plan.

Finally, using the aforementioned JP Morgan study as an objective source of information, we find the following “Implied License Value / MHz / Pop” from the chart of Implied Public Market Trading Values of Cellular and PCS Operators. Nextel has the third highest Implied License Value / MHz / Pop in the industry. As Nextel’s Implied License Value / MHz / Pop is 85% greater than the mean and 200% greater than the median, there is no suggestion from this financial data that Nextel’s bandwidth is impaired either functionally or from a valuation perspective.

Company	License Value/MHz/Pop
Dobson	$7.4
Western Wireless	$2.6
Nextel	$2.4
Airgate PCS	$2.0
Nextel Partners	$2.0
Triton PCS	$1.7
Centennial (total)	$1.2
Leap Wireless	$0.8
Alamosa Holdings	$0.7
Sprint PCS	$0.5
Alltel	$0.5
United States Cellular	($0.0)
US Unwired	($0.1)
Ubiquitel	($0.2)
AT&T Wireless	($0.3)
Centennial (domestic)	($0.6)
Mean	$1.3
Median	$0.8

We find in Table 4 of the Kane Reece report, a listing of the wireless companies along with data points including EBITDA margin (EBITDA refers to Earnings Before Interest, Taxes, Depreciation and Amortization). We note that Nextel's EBITDA margin is 38.7% as opposed to the average EBITDA margin for the wireless industry of 30.0%. If we limit our analysis to the larger companies, those with a minimum of 3 million subscribers, we see the following:

Company	EBITDA Margin
Verizon Wireless	39.1%
Nextel	38.7%
Alltel Wireless	38.2%
Cingular	31.8%
US Cellular	30.1%
AT&T Wireless	26.9%
Sprint PCS	26.3%
T-Mobile	7.9%
Mean	29.9%
Median	31.0%

Again, we see no evidence of "impaired spectrum" in Nextel's EBITDA margin.

Table 81 of the JP Morgan report[12] shows EBITDA per Subscriber per Carrier. We have presented this data for the year 2002 as follows:

	EBITDA per Subscriber per Carrier				
	1Q '02	2Q '02	3Q '02	4Q '02	Average 2002
Nextel domestic	$21.91	$28.93	$29.63	$28.50	$27.24
Western Wireless	$23.96	$26.22	$26.61	$27.32	$26.03
Centennial Communications (domestic)	$21.06	$22.05	$25.05	$23.56	$22.93
Centennial Communications (total)	$19.91	$19.88	$21.93	$21.53	$20.81
Verizon	$17.58	$18.83	$19.12	$19.66	$18.80
Triton PCS	$17.09	$20.68	$21.59	$15.60	$18.74
CenturyTel	$17.99	$19.02	$19.47	$17.52	$18.50
Price Communications	$17.36	$18.44	$18.45	$18.45	$18.18
ALLTEL	$17.42	$17.88	$18.80	$17.85	$17.99
Cingular	$17.15	$17.83	$16.48	$14.88	$16.59
Sprint PCS	$15.33	$17.64	$16.59	$16.60	$16.54
AT&T Wireless	$14.91	$17.27	$17.87	$14.94	$16.25
Broadwing	$16.70	$14.84	$14.64	$14.45	$15.16
U.S. Cellular	$14.51	$16.68	$14.92	$11.32	$14.36
Qwest	($3.02)	$5.34	$9.51	$9.57	$5.35
VoiceStream	$2.95	$7.30	$4.21	$2.02	$4.12
Alamosa PCS	$1.97	$3.79	$3.07	$4.24	$3.27
Nextel Partners	($10.67)	($2.96)	$3.55	$7.37	($0.68)
US Unwired PCS	($8.58)	($0.21)	($1.00)	$0.31	($2.37)
Airgate PCS	($4.71)	($2.34)	($5.46)	$0.39	($3.03)
Leap Wireless	($17.52)	($7.51)	($6.03)	$0.23	($7.71)
UbiquiTel	($20.44)	($15.50)	($11.81)	($5.23)	($13.25)
MetroPCS	($256.83)	($102.14)	($45.69)	($20.80)	($106.37)
Virgin Mobile	($798.53)	($433.39)	($182.66)	($91.69)	($376.57)
Group Weighted Average	$15.03	$17.28	$16.92	$15.86	$16.27

We see that in 2002, Nextel had the highest cash flow per subscriber in the industry. This again suggests that there is no impairment to Nextel's licensed spectrum.

[12] JP Morgan Chase Securities, Inc. *Mobile Metrics – Spring 2003*, March 12, 2003, p. 140.

Kane Reece uses the concept of spectrum impairment in its reports as a way to devalue Nextel's spectrum because Kane Reece states that Nextel cannot deploy CDMA technology. Kane Reece indicates that CDMA is a more efficient technology and enables a carrier to achieve greater revenue. The data depicted above, however, belies Kane Reece's devaluation argument. It indicates instead that Nextel has already deployed, at 800 MHz and 900 MHz, a highly efficient spectrum technology (iDEN) that enables it to offer attractive services that generate industry leading cash flow. The ability to generate revenue, and ultimately cash flow, from spectrum is the basic attribute that ultimately determines a spectrum block's fair market value in a competitive marketplace. Thus, the facts demonstrate no impairment of Nextel's spectrum and accordingly, Kane Reece's devaluation is inaccurate.

Compliance with USPAP

In their reports, Kane Reece states that their work is in compliance with the Uniform Standards of Professional Appraisal Practice ("USPAP"). In Standards Rule 9-1, USPAP requires:

> In developing a business or intangible asset appraisal, an appraiser must: (a) be aware of, understand, and correctly employ those recognized methods and procedures that are necessary to produce a credible appraisal; (b) not commit a substantial error of omission or commission that significantly affects an appraisal; and (c) not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affect the credibility of those results.[13]

These are binding requirements. It is our opinion that the inaccurate financial assumptions and errors in methodology demonstrated in this report render the Kane Reese report not in compliance with parts (b) and (c) of Standards Rule 9-1.

[13] Uniform Standards of Professional Appraisal Practice and Advisory Opinions, 2004 Edition; The Appraisal Foundation; p. 74.

Conclusions

Although the Kane Reece reports have attempted to value the various bands of spectrum in a considerable amount of detail, their analyses include a number of errors which make their results unreliable. Moreover, Kane Reece has not addressed how Nextel's spectrum could be so materially impaired and still enable Nextel to have returns which are among the highest in the wireless industry. Accordingly, we must reject the valuation conclusions found in the Kane Reece report.

Respectfully submitted,

AMERICAN APPRAISAL ASSOCIATES, INC.

Richard Billovits
Vice President and Principal
Financial Valuation Group

May 6, 2004

Investigation and Report by:
Richard Billovits
Susan Nunamaker ASA

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CERTIFICATE OF APPRAISER

I certify that, to the best of my knowledge and belief:

The statements of fact contained in this report are true and correct.

The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and represent my personal unbiased professional analyses, opinions and conclusions.

American Appraisal Associates, Inc., has no present or prospective interest in the property that is the subject of this report, and has no personal interest or bias with respect to the parties involved.

Compensation for American Appraisal Associates, Inc., is not contingent on any action or event resulting from the analyses, opinions or conclusions in, or the use of, this report.

The analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Uniform Standards of Professional Appraisal Practice of The Appraisal Foundation and the Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers.

Anyone providing significant professional assistance is identified on the signature page of this report.

Richard Billovits

Richard Billovits

ASSUMPTIONS AND LIMITING CONDITIONS

This service was performed with the following general assumptions and limiting conditions:

[1]
All data relied upon in developing this rebuttal report come from the report reviewed for rebuttal, and no independent investigation was made or is available for this report. Therefore, no guarantee is made nor liability assumed for the truth or accuracy of any data, opinions, or estimates furnished by others that have been used in this analysis.

[2]
No responsibility is assumed for matters legal in nature. No investigation has been made of the title to or any liabilities against the property appraised.

[3]
The comment presented in this report are based only upon the premises outlined herein.

[4]
The date of value to which the opinions expressed apply is set forth in the report.

[5]
This report has been made only for the use or uses stated, and it is neither intended nor valid for any other use.

[6]
Possession of this report or any copy thereof does not carry with it the right of independent publication.

[7]
Areas, dimensions, and descriptions of property, if any, used in this analysis have not been verified. Any areas, dimensions, and descriptions of property included in the rebuttal are provided for identification purposes only

[8]
No environmental impact study has been ordered or made. Full compliance with all applicable laws and governmental regulations is assumed defined, and considered in the report.

APPENDIX A - GENERAL SERVICE CONDITIONS

Agreement - The Contract governing this engagement including these General Service Conditions represents the entire agreement between American Appraisal and the Client. It supersedes any prior oral or written agreement and may not be altered except by the mutual written agreement of all parties thereto.

Assignment – Neither party may assign, transfer, or delegate any of the rights or obligations hereunder without the prior written consent of the other party; unless such assignment is based upon the lawful transfer to a successor in interest of all or substantially all of the party's assets or business interests.

Client of Record – Only the signed Client of Record may rely on the results of American Appraisal's work. No third party shall have the reliance or contractual rights of American Appraisal's Client of Record without American Appraisal's prior written consent. No party should rely on the results of American Appraisal's work as a substitute for its own due diligence.

Communication – Electronic media including voice-mail, e-mail, and faxes are acceptable vehicles to communicate all materials unless such communication forms are expressly prohibited in the Contract. Client shall not assume or deem the Client Service Team assigned by American Appraisal to any work contemplated by the Contract to have knowledge of information provided to others not part of that team.

Contingent Fees - American Appraisal's compensation is not contingent in any way upon its opinions or conclusions or upon any subsequent event directly related to those opinions or conclusions. Client shall pay American Appraisal's invoices in accordance with their stated terms.

Confidentiality - American Appraisal will maintain the confidentiality of the Client's confidential information with the same degree of care that American Appraisal uses to keep its own materials confidential and shall not disclose it to anyone or use it for any purpose whatsoever other than Client's engagement, provided that in the event that American Appraisal is legally compelled to disclose such information, American Appraisal shall provide Client with prompt written notice so that Client may seek a protective remedy, if available. American Appraisal shall have the right to provide access to work files as required to comply with any quality or compliance audits administered by any necessary accreditation or standards organizations with which its employees are associated. Any such access shall continue to be subject to the same confidence by both American Appraisal and the applicable organization. Information shall not be treated as confidential if: (i) it is now or later available to the public, (ii) at the time of disclosure to American Appraisal, the information was already in its possession, or (iii) the information was obtained from a third party under no obligation of confidentiality to Client.

Unless mandated by applicable laws or governmental regulations, Client shall not disclose any part of American Appraisal's work product, its confidential materials, or its role in the engagement to anyone not stipulated in the Contract, without the prior written consent of American Appraisal. American Appraisal shall have the right to include Client's name in American Appraisal's client list.

Force Majeure - Neither the Client nor American Appraisal shall be liable for delays or for failures to perform according to the terms of the Contract due to circumstances that are beyond their individual control.

Governing Law, Jurisdiction and Venue - This Contract shall be governed by the law of the State of Wisconsin within the jurisdiction of any state or federal court located in Milwaukee, Wisconsin, having subject matter jurisdiction.

Indemnification - Client shall indemnify and hold harmless American Appraisal against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorneys' fees, to which American Appraisal may become subject in connection with this engagement, except to the extent finally judicially determined to have resulted from the negligence or intentional misconduct of American Appraisal. Client's obligation for indemnification and reimbursement shall extend to any controlling person of American Appraisal including any director, officer, employee, subcontractor, affiliate, or agent. American Appraisal's liability to Client shall in no event exceed the fees it receives as a result of the engagement, except to the extent determined to have resulted from the negligence or intentional misconduct of American Appraisal.

American Appraisal shall indemnify and hold harmless Client against and from any and all losses, claims, or expenses for bodily injury or property damage, in proportionate part to that which is caused by American Appraisal personnel or representatives during the performance of the engagement, except to the extent of Client's negligence. While on Client's premises, the personnel assigned by American Appraisal to any work contemplated by the Contract shall comply with all posted safety instructions or safety procedures requested by Client.

Independent Contractor – American Appraisal and Client shall be independent contractors with respect to each other. American Appraisal reserves the right to use subcontractors in executing the engagement. American Appraisal is an equal opportunity employer.

Limits on the Use of the Work – American Appraisal's report may be used only for the specific use or uses stated in the Contract, and any other use is invalid.

Reliance on Information Provided by Client – American Appraisal is entitled to rely without independent verification on the accuracy and completeness of all of the information provided by Client or its advisors.

Retention - Unless stipulated to the contrary in the Contract or in a related written agreement, American Appraisal will retain as its property all files, documents, workpapers, and other results, developed during the course of the engagement. Such materials will be retained for a period of at least seven years. During this retention period, Client shall have access to these documents to assist it in completing the specific use or uses stated in the Contract, subject only to reasonable notification.

Scope of the Work - American Appraisal shall be obligated only for services specified in the Contract, and only for changes to the scope of those services that are set forth in any subsequent written agreement. As a result, the scope of the work does not include unrelated services or the responsibility to update any of the work after its completion. Further, American Appraisal reserves the right to decline to perform any additional services, if American Appraisal believes such services would create an actual or perceived conflict of interests, or would be illegal or in violation of applicable regulations or professional standards.

Standards of Performance - American Appraisal shall perform the engagement in accordance with applicable professional standards. However, professional services usually involve judgments made in an uncertain environment and based on an analysis of data that may be unverified or subject to change over time. Client and other parties to whom Client provides access to the results of American Appraisal's work shall evaluate the performance of American Appraisal based on the specifications of the Contract as well as on the applicable professional standards.

Testimony - American Appraisal's services do not include giving testimony or participating in or attending court or any other legal or regulatory hearing or inquiry unless provided for in the Contract or in a subsequent written agreement